

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name MACKINAC ISLAND PUBLIC SCHOOL		County MACKINAC	
Fiscal Year End 6/30/2007		Opinion Date 10/23/2007		Date Audit Report Submitted to State 10/26/2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

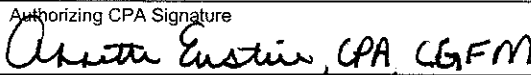
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON			Telephone Number (231) 627-3143	
Street Address 902 S. HURON STREET			City CHEBOYGAN	State MI
			Zip 49721	
Authorizing CPA Signature 		Printed Name ANNETTE EUSTICE, CPA, CGFM		License Number 110109667

MACKINAC ISLAND PUBLIC SCHOOL

MACKINAC ISLAND, MICHIGAN



FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

MACKINAC ISLAND PUBLIC SCHOOL

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INDEPENDENT AUDITORS' REPORT

October 23, 2007

Board of Education
Mackinac Island Public School
Mackinac Island, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Mackinac Island Public School*** (the "District"), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages I-VI is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the *Mackinac Island Public School* (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$1,392,919 (*net assets*). The District's net capital assets exceeded the debt obligations in the amount of \$59,110, resulting in unrestricted net assets of \$1,333,809, which may be used to meet the District's ongoing obligations.
- The District's total net assets increased by \$128,396.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,362,453, an increase of \$63,420 in comparison with the prior year. Approximately 90%, or \$1,225,626, is *available for spending* at the District's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,223,368 or 96% percent of total General Fund expenditures (excluding transfers out).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *District-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District-wide financial statements present functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, supporting services, payments to other public schools, food services and athletics. The District has no business-type activities as of and for the year ended June 30, 2007.

The government-wide financial statements can be found on pages 3-4 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the 1999 School Building and Site Construction Debt Service Fund which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 5-9 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 10-11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12-23 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 24-33 of this report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded its liabilities by \$1,392,919 at the close of the fiscal 2007.

The District's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Mackinac Island Public School Net Assets

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$1,425,091	\$1,343,572
Capital assets, net of accumulated depreciation	<u>2,089,110</u>	<u>2,146,501</u>
Total assets	<u>3,514,201</u>	<u>3,490,073</u>
Liabilities		
Current liabilities	208,508	59,576
Long-term liabilities	<u>1,912,774</u>	<u>2,165,974</u>
Total liabilities	<u>2,123,548</u>	<u>2,225,550</u>
Net assets		
Invested in capital assets, net of related debt	59,110	1,501
Unrestricted	<u>1,333,809</u>	<u>1,263,022</u>
Total net assets	<u>\$1,392,919</u>	<u>\$1,264,523</u>

The District's net assets increased by \$128,396 during the current fiscal year.

**Mackinac Island Public School
Changes in Net Assets**

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues		
Charges for services	\$ 13,421	\$ 20,626
Operating grants and contributions	25,678	51,051
General revenues		
Property taxes	1,357,182	1,312,979
State school aid	123,447	106,688
Unrestricted investment earnings	<u>71,726</u>	<u>53,404</u>
Total revenues	<u>1,591,454</u>	<u>1,544,748</u>
Expenses		
Instruction	781,715	717,477
Support services	477,108	438,485
Payments to other public schools	4,001	10,221
Food services	43,624	38,513
Athletics	12,604	13,665
Interest on long-term debt	89,777	93,787
Depreciation – unallocated	<u>54,229</u>	<u>54,229</u>
Total expenses	<u>1,463,058</u>	<u>1,366,377</u>
Change in net assets	128,396	178,371
Net assets, beginning of year	<u>1,264,523</u>	<u>1,086,152</u>
Net assets, end of year	<u>\$1,392,919</u>	<u>\$1,264,523</u>

Of the District's total revenues available to operate the District, approximately .80% or \$13,421 came from fees charged to those who benefited from the programs. Approximately 1.6% or \$25,678 came from other governments or organizations that subsidize certain programs with grants and other directed types of funding.

Local property taxes, in the amount of approximately \$1.4 million, mainly supported the remaining portion of the governmental activities. The property tax revenue represents 7.4 mills on all non-homestead property. The unrestricted state aid accounted for approximately 7.8% or \$123,447 of the revenue available. This revenue is determined by a formula that incorporates pupil head count, the annual per pupil allowance and the non-homestead property taxable value of the District.

Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$781,715 or 53.0% of total expenses. Support services amounted to approximately \$477,108 or 33.0% of total expenses, which includes such items as administration, transportation, maintenance and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net assets of \$128,396 or approximately 12.0%. This increase in net assets differs from the change in fund balance and a reconciliation appears later in the financial statements.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,362,453, an increase of \$63,420 in comparison with the prior year. Approximately 90.0% of this total amount or \$1,225,626 constitutes *unreserved fund balance*, which is available for spending at the District's discretion. Of the reserved fund balance, approximately \$87,243 is reserved for debt service and approximately \$49,584 is reserved for future capital projects.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,223,368, while total fund balance was \$1,272,952. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 84.0% and 87.0%, respectively of total General Fund expenditures (excluding transfers out).

The fund balance of the District's General Fund increased by \$45,643 during the current fiscal year. This increase is primarily attributable to the same factors that increased net assets, which were described above.

General Fund Budgetary Highlights

Generally, as additional information became known during the fiscal year, budget amendments are made as deemed necessary. No budget amendments were made during fiscal 2007.

The following were the difference between the final amended budget and actual results (all numbers are approximate):

- Local sources of revenue were \$1,218,661 rather than the \$1,234,104 final amended budgeted amount attributable mainly an overestimate of property taxes to be collected by the District.
- State sources of revenue were \$121,751 rather than the \$90,000 final amended budgeted amount attributable to an underestimate of the Isolated District Grant to be received by the District.
- The District did not budget for federal revenues which were provided to the District in the amount of \$8,862.

- Instructional costs were \$787,053 rather than the \$804,904 final amended budget amount attributable mainly to reductions in planned spending for special education materials and supplies.
- Support services were \$475,908 rather than the \$481,855 final amended budget amount attributable mainly to reductions in planned spending for supplies and materials.
- Payments to other public schools were \$4,001 rather than \$12,000 as certain planned contractual services were not incurred.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2007, amounted to \$2,089,110 (net of accumulated depreciation). This investment in capital assets includes buildings and furniture and equipment. The land on which the school is built is owned by the City of Mackinac Island.

Mackinac Island Public School Capital Assets (net of depreciation)

	<u>2007</u>	<u>2006</u>
Buildings and improvements	\$2,058,590	\$2,112,819
Furniture and equipment	<u>30,520</u>	<u>33,682</u>
Net capital assets	<u>\$2,089,110</u>	<u>\$2,146,501</u>

Additional information on the District's capital assets can be found in Note III C on page 18 of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$2,030,000. The District's total debt decreased by \$121,600 (5.6%) during the current fiscal year. Additional information on the District's long-term debt can be found in Note III F on page 20-21 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2007-2008 fiscal year:

- Property tax increases consistent with the past several years.
- Wage and health insurance increases.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, Mackinac Island Public School, Mackinac Island, MI.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF NET ASSETS GOVERNMENTAL ACTIVITIES

JUNE 30, 2007

Assets	
Cash and cash equivalents	\$ 1,390,494
Receivables	34,597
Capital assets, net	<u>2,089,110</u>
Total assets	<u>3,514,201</u>
Liabilities	
Payables	75,993
Unearned revenue	915
Long-term liabilities	
Due within one year	131,600
Due in more than one year	<u>1,912,774</u>
Total liabilities	<u>2,121,282</u>
Net assets	
Invested in capital assets, net of related debt	59,110
Unrestricted	<u>1,333,809</u>
Total net assets	<u>\$ 1,392,919</u>

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 781,715	\$ -	\$ 8,862	\$ (772,853)
Supporting services	477,108	3,696	9,475	(463,937)
Payments to other public schools	4,001	-	-	(4,001)
Food services	43,624	9,725	7,341	(26,558)
Athletics	12,604	-	-	(12,604)
Interest on long-term debt	89,777	-	-	(89,777)
Depreciation - unallocated	54,229	-	-	(54,229)
Total governmental activities	\$ 1,463,058	\$ 13,421	\$ 25,678	(1,423,959)
General revenues				
Property taxes - operations				1,138,753
Property taxes - debt service				218,429
State aid				123,447
Unrestricted investment earnings				71,726
Total general revenues				1,552,355
Change in net assets				128,396
Net assets, beginning of year				1,264,523
Net assets, end of year				\$ 1,392,919

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2007

	General	1999 School Building and Site Construction Debt Service Fund	Non- Major Funds	Total Governmental Fund
ASSETS				
Cash and cash equivalents	\$ 1,328,692	\$ 60,279	\$ 1,523	\$ 1,390,494
Accounts receivable	3,969	-	4,643	8,612
Due from other funds	3,908	26,964	-	30,872
Due from other governmental units	25,985	-	-	25,985
Total assets	\$ 1,362,554	\$ 87,243	\$ 6,166	\$ 1,455,963
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 6,656	\$ -	\$ -	\$ 6,656
Salaries payable	55,067	-	-	55,067
Due to other funds	26,964	-	3,908	30,872
Unearned revenue	915	-	-	915
Total liabilities	89,602	-	3,908	93,510
Fund balances				
Reserved				
Debt service	-	87,243	-	87,243
Capital projects	49,584	-	-	49,584
Unreserved				
Undesignated Special Revenue Funds	-	-	2,258	2,258
Undesignated General Fund	1,223,368	-	-	1,223,368
Total fund balances	1,272,952	87,243	2,258	1,362,453
Total liabilities and fund balances	\$ 1,362,554	\$ 87,243	\$ 6,166	\$ 1,455,963

Continued...

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2007

Reconciliation of fund balance on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets

Fund balances - total governmental funds	\$ 1,362,453
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Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not therefore reported in the funds

Add	- capital assets	2,851,720
Deduct	- accumulated depreciation	(762,610)

Certain liabilities, such as bonds payable, are not due and payable in the current period and are not reported in the funds

Deduct	- bonds payable	(2,030,000)
	- early retirement incentive	(14,374)
	- accrued interest on bonds payable	(14,270)

Net assets of governmental activities	<u><u>\$ 1,392,919</u></u>
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Concluded

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	General	1999 School Building and Site Construction Debt Service Fund	Non- Major Funds	Total Governmental Funds
Revenues				
Local sources				
Property taxes	\$ 1,138,753	\$ 218,429	\$ -	\$ 1,357,182
Charges for services	-	-	9,725	9,725
Interest income	66,737	4,892	97	71,726
Other income	13,171	-	-	13,171
State sources	121,751	-	1,696	123,447
Federal sources	8,862	-	7,341	16,203
Total revenues	1,349,274	223,321	18,859	1,591,454
Expenditures				
Instruction	787,053	-	-	787,053
Supporting services	475,908	-	-	475,908
Payments to other public schools	4,001	-	-	4,001
Food services	-	-	42,924	42,924
Athletics	-	-	12,604	12,604
Debt service	-	-	-	-
Principal	-	115,000	-	115,000
Interest	-	90,544	-	90,544
Total expenditures	1,266,962	205,544	55,528	1,528,034
Revenues over (under) expenditures	82,312	17,777	(36,669)	63,420
Other financing sources (uses)				
Transfers in	-	-	36,669	36,669
Transfers out	(36,669)	-	-	(36,669)
Total other financing (uses) sources	(36,669)	-	36,669	-
Net change in fund balances	45,643	17,777	-	63,420
Fund balances, beginning of year	1,227,309	69,466	2,258	1,299,033
Fund balances, end of year	\$ 1,272,952	\$ 87,243	\$ 2,258	\$ 1,362,453

Continued...

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities

Net change in fund balances - total governmental funds	\$	63,420
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Amounts reported for *governmental activities* in the statement of activities is different because

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct	- depreciation expense	(57,391)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add	- principal payments on long-term liabilities	115,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add	- decrease in accrual for early retirement incentive	6,600
	- decrease in accrued interest payable on bonds	767

Change in net assets of governmental activities	\$	128,396
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Concluded

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2007

	Budget		Actual	Actual to Amended Budget Variance - Positive (Negative)
	Original	Amended		
Revenues				
Local sources	\$ 1,234,104	\$ 1,234,104	\$ 1,218,661	\$ (15,443)
State sources	90,000	90,000	121,751	31,751
Federal sources	-	-	8,862	8,862
Total revenues	1,324,104	1,324,104	1,349,274	25,170
Expenditures				
Education				
Instruction	804,904	804,904	787,053	17,851
Supporting services	481,855	481,855	475,908	5,947
Payments to other public schools	12,000	12,000	4,001	7,999
Total expenditures	1,298,759	1,298,759	1,266,962	31,797
Revenues over (under) expenditures	25,345	25,345	82,312	56,967
Other financing uses				
Transfers out	(41,650)	(41,650)	(36,669)	4,981
Net change in fund balance	(16,305)	(16,305)	45,643	61,948
Fund balance, beginning of year	1,227,309	1,227,309	1,227,309	-
Fund balance, end of year	\$ 1,211,004	\$ 1,211,004	\$ 1,272,952	\$ 61,948

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash	\$ 20,353	\$ 30,586
Investments	107,076	-
Total assets	127,429	\$ 30,586
Liabilities		
Due to student groups	-	\$ 30,586
Net assets, restricted for scholarships	\$ 127,429	

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS**

FOR THE YEAR ENDED JUNE 30, 2007

Additions	
Contributions	\$ 1,955
Investment earnings	<u>5,804</u>
Total additions	7,759
Deductions	
Scholarships	<u>4,569</u>
Change in net assets	3,190
Net assets, beginning of year	<u>124,239</u>
Net assets, end of year	<u>\$ 127,429</u>

The accompanying notes are an integral part of these basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Mackinac Island Public School (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2007.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the *General Fund* as a major governmental fund. The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The major *1999 School Building and Site Construction Debt Service Fund* accounts for the principal and interest payments on the bonds used to finance the 1999 construction project in the District.

Additionally, the District reports the following fund types:

The *Special Revenue Funds* account for the food service and athletic programs sponsored by the District.

The *Fiduciary Funds* account for assets held by the District in a trustee capacity or an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the District-wide financial statements.

The *Private Purpose Trust Funds* are accounted for using the accrual method of accounting. Private Purpose Trust Funds account for assets whereby both the principal and interest may be spent.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. The Agency Fund is accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds in an agency capacity (primarily student activities).

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the District-wide financial statements.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no interfund advance loans outstanding at June 30, 2007.

3. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and equipment	5-20

4. Long-term obligations

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Termination benefits

Early Retirement Incentive

Occasionally, the District offers special incentives to employees during a brief period to encourage early retirement. All early retirement incentives are accrued when incurred in the District-wide statements.

6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end.

The General Fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budget for the General Fund is adopted on a functional basis.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Cash and cash equivalents	<u>\$1,390,494</u>
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Statement of Fiduciary Net Assets

Private Purpose Trust Funds	
Cash and cash equivalents	20,353

Investments	107,076
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Agency Fund

Cash and cash equivalents	<u>30,586</u>
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Total Statement of Fiduciary Net Assets	<u>158,015</u>
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Total cash and cash equivalents and investments

<u>\$1,548,509</u>

All of the above balances are considered to be deposits for disclosure purposes.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial risk. As of the year ended June 30, 2007, \$1,396,414 of the District's bank balance of \$1,596,414 was exposed to custodial credit risk because it was uninsured and uncollateralized.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's policy allows all of the above types of investments.

B. Receivables

Receivables are comprised of the following:

Accounts receivable	\$ 8,612
Due from other governmental units	<u>25,985</u>
Total receivables	<u>\$ 34,597</u>

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
Capital assets being depreciated				
Buildings and improvements	\$2,697,787	\$ -	\$ -	\$2,697,787
Furniture and equipment	<u>153,933</u>	<u>-</u>	<u>-</u>	<u>153,933</u>
Subtotal	<u>2,851,720</u>	<u>-</u>	<u>-</u>	<u>2,851,720</u>
Accumulated depreciation				
Buildings and improvements	(584,968)	(54,229)	-	(639,197)
Equipment	<u>(120,251)</u>	<u>(3,162)</u>	<u>-</u>	<u>(123,413)</u>
Total accumulated depreciation	<u>(705,219)</u>	<u>(57,391)</u>	<u>-</u>	<u>(762,610)</u>
Governmental activities capital assets, net	<u>\$2,146,501</u>	<u>\$ (57,391)</u>	<u>\$ -</u>	<u>\$2,089,110</u>

The land on which the school is built is owned by the City of Mackinac Island.

Depreciation expense was charged to functions/programs of the primary government as follows:

Instructional services	\$ 1,262
Support services	1,200
Food services	700
Depreciation – unallocated	<u>54,229</u>
Total depreciation expense	<u>\$ 57,391</u>

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

D. Payables

Payables are comprised of the following:

Accounts payable	\$ 6,656
Interest payable	14,270
Salaries and related payables	<u>55,067</u>
Total payables	<u>\$ 75,993</u>

E. Interfund receivables, payables and transfers

The following balances represent individual fund interfund receivables and payables at June 30, 2007:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Due To/From		
General fund	\$ 3,908	\$ 26,964
Debt service fund	26,964	-
Nonmajor fund		
Food service fund	<u>-</u>	<u>3,908</u>
Total	<u>\$ 30,872</u>	<u>\$ 30,872</u>

The District reports interfund balances between certain funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year then ended, interfund transfers consisted of transfers from General Fund to the Nonmajor Food Service and Athletics Funds in the amount of \$24,065 and \$12,604, respectively.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2007, the District transferred funds to subsidize the food service and athletics programs.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

F. Long-Term Debt

Long-term debt of the District consists of the following:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds payable					
General obligation debt	\$2,145,000	\$ -	\$ (115,000)	\$2,030,000	\$ 125,000
Other liabilities					
Early retirement incentive	<u>20,974</u>	<u>-</u>	<u>(6,600)</u>	<u>14,374</u>	<u>6,600</u>
Total long-term liabilities	<u>\$2,165,974</u>	<u>\$ -</u>	<u>\$ (121,600)</u>	<u>\$2,044,374</u>	<u>\$ 131,600</u>

Long-term liabilities at June 30, 2007 are as follows:

Bonds payable

General Obligation Bonds

1999 Building and Construction Bonds,
due through 2019 in annual
installments ranging from \$115,000 to
\$205,000 with interest rates ranging
from 4.00% to 4.35%.

\$2,030,000

Other liabilities

14,374

Total long-term liabilities

\$2,044,374

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Bond debt service requirements

The annual requirements to service the bonds outstanding to maturity, including both principal and interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 125,000	\$ 85,620	\$ 210,620
2009	130,000	80,620	210,620
2010	140,000	75,420	215,420
2011	145,000	69,680	214,680
2012	155,000	63,736	218,736
2013-2017	925,000	212,964	1,137,964
2018-2019	<u>410,000</u>	<u>26,754</u>	<u>436,754</u>
Total	<u>\$2,030,000</u>	<u>\$ 614,794</u>	<u>\$2,644,794</u>

Interest expense was \$90,543 for the year ended June 30, 2007.

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. School related property taxes are levied on December 1, each year, based on the previous years assessment, by township governments whose boundaries include property within the District, and are due on February 28. Delinquent real taxes are advanced to the District by the County. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any.

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2007, 2006 and 2005 were \$100,278, \$99,975 and \$86,913 respectively, equal to the required contributions for each year.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Other Post-employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the District. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Commitments and Contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2007.

The District is a reimbursing employer to the Michigan Employment Security Commission and as such is responsible to pay the Commission for all benefits paid and charged to the District. As of June 30, 2007 appropriate liabilities have been recorded for all claims paid by the Commission which have been submitted to the District. However, no provision has been made for future payments that might result from claims unprocessed or unfiled.

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COMBINING FUND STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2007

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Food Service	Athletics	
ASSETS			
Cash and cash equivalents	\$ 1,523	\$ -	\$ 1,523
Accounts receivable	4,643	-	4,643
Total assets	\$ 6,166	\$ -	\$ 6,166
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to other funds	\$ 3,908	\$ -	\$ 3,908
Fund balances			
Unreserved, undesignated	2,258	-	2,258
Total liabilities and fund balances	\$ 6,166	\$ -	\$ 6,166

MACKINAC ISLAND PUBLIC SCHOOL

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Food Service	Athletics	
Revenues			
Local sources			
Charges for services	\$ 9,725	\$ -	\$ 9,725
Interest income	97	-	97
State sources	1,696	-	1,696
Federal sources	7,341	-	7,341
Total revenues	18,859	-	18,859
Expenditures			
Food services	42,924	-	42,924
Athletics	-	12,604	12,604
Total expenditures	42,924	12,604	55,528
Revenues over (under) expenditures	(24,065)	(12,604)	(36,669)
Other financing sources			
Transfers in	24,065	12,604	36,669
Changes in fund balances	-	-	-
Fund balances, beginning of year	2,258	-	2,258
Fund balances, end of year	\$ 2,258	\$ -	\$ 2,258

MACKINAC ISLAND PUBLIC SCHOOL

BALANCE SHEET GENERAL FUND

JUNE 30, 2007

ASSETS	
Cash and cash equivalents	\$ 1,328,692
Accounts receivable	3,969
Due from other funds	3,908
Due from other governmental units	<u>25,985</u>
Total assets	<u>\$ 1,362,554</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 6,656
Salaries payable	55,067
Due to other funds	26,964
Deferred revenue	<u>915</u>
Total liabilities	<u>89,602</u>
Fund balance	
Reserved for capital improvements	49,584
Unreserved, undesignated	<u>1,223,368</u>
Total fund balance	<u>1,272,952</u>
Total liabilities and fund balance	<u>\$ 1,362,554</u>

MACKINAC ISLAND PUBLIC SCHOOL

SCHEDULE OF REVENUES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2007

Revenues

Local sources

Property taxes	\$ 1,138,753
Interest	66,737
Other local revenue	<u>13,171</u>

Total local sources	1,218,661
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State sources	121,751
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Federal sources	<u>8,862</u>
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Total revenues	<u><u>\$ 1,349,274</u></u>
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MACKINAC ISLAND PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2007

Expenditures

Instruction

Basic programs

Elementary

Salaries	\$ 244,822
Employee benefits	133,286
Purchased services	4,327
Supplies and materials	7,686

Total elementary	390,121
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Secondary

Salaries	183,997
Employee benefits	130,217
Purchased services	8,067
Supplies and materials	7,098

Total secondary	329,379
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Total basic programs	719,500
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Added needs

Special education

Salaries	34,056
Employee benefits	20,625
Purchased services	11,980
Supplies and materials	892

Total special education	67,553
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Total instruction	787,053
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Continued...

MACKINAC ISLAND PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2007

Supporting services	
Instructional staff	
Library	
Salaries	\$ 3,910
Employee benefits	714
Purchased services	3,872
Supplies and materials	1,241
Capital outlay	40,505
Total library	50,242
Academic student assessment	
Supplies and materials	916
Total instructional staff	51,158
General administration	
Board of education	
Salaries	2,580
Purchased services	35,098
Other	652
Total board of education	38,330
Executive administration	
Salaries	122,362
Purchased services	11,739
Employee benefits	65,694
Supplies and materials	4,982
Other	1,873
Total executive administration	206,650
Total general administration	244,980
Business	
Fiscal services	
Salaries	2,092
Purchased services	382
Supplies and materials	222
Total fiscal services	2,696
Total business	2,696

Continued...

MACKINAC ISLAND PUBLIC SCHOOL

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2007

Operations and maintenance	
Salaries	\$ 43,129
Employee benefits	38,484
Purchased services	37,460
Supplies and materials	52,868
Capital outlay	<u>5,133</u>
Total operations and maintenance	<u>177,074</u>
Total supporting services	<u>475,908</u>
Payments to other public schools	
ITV tuition costs	<u>4,001</u>
Total expenditures	1,266,962
Other financing uses	
Transfer out	<u>36,669</u>
Total expenditures and other financing uses	<u><u>\$ 1,303,631</u></u>

Concluded

MACKINAC ISLAND PUBLIC SCHOOL

COMBINING STATEMENT OF NET ASSETS PRIVATE PURPOSE TRUST FUNDS

JUNE 30, 2007

	Private Purpose Trusts		Total
	Stella King Scholarship Fund	John Franks Scholarship Fund	Private Purpose Trust Funds
Assets			
Cash and cash equivalents	\$ 7,030	\$ 13,323	\$ 20,353
Investments	1,000	106,076	107,076
Net assets, restricted for scholarships	\$ 8,030	\$ 119,399	\$ 127,429

MACKINAC ISLAND PUBLIC SCHOOL

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS PRIVATE PURPOSE TRUST FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

	Private Purpose Trusts		Total Private Purpose Trust Funds
	Stella King Scholarship Fund	John Franks Scholarship Fund	
Additions			
Contributions	\$ 1,955	\$ -	\$ 1,955
Investment earnings	85	5,719	5,804
Total additions	2,040	5,719	7,759
Deductions			
Scholarship payments	500	4,069	4,569
Change in net assets	1,540	1,650	3,190
Net assets, beginning of year	6,490	117,749	124,239
Net assets, end of year	\$ 8,030	\$ 119,399	\$ 127,429

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2007

	Balances July 1, 2006	Receipts	Disbursements	Balances June 30, 2007
ASSETS				
Cash	\$ 30,094	\$ 84,906	\$ 84,414	\$ 30,586
LIABILITIES				
Due to student groups	\$ 30,094	\$ 84,906	\$ 84,414	\$ 30,586
The balances at June 30, 2007 consist of the following				
Due to student groups				
Class of 2006	\$ 1,124	\$ 49	\$ 1,115	\$ 58
Class of 2007	1,240	7,039	7,908	371
Class of 2008	3,227	1,485	452	4,260
Class of 2009	2,877	3,970	2,343	4,504
Class of 2010	1,885	926	533	2,278
Class of 2011	50	2,677	786	1,941
Project Close-up	986	7,749	7,437	1,298
Travel Club	3,536	3,127	1,876	4,787
Kindness Fund	412	4	121	295
Miscellaneous	98	47,887	47,553	432
Video Fund	578	4	260	322
Yearbook	1,634	268	27	1,875
Golf	5,929	50	1,182	4,797
Sports Boosters	4,107	8,800	10,821	2,086
Arts Club	2,411	871	2,000	1,282
Total	\$ 30,094	\$ 84,906	\$ 84,414	\$ 30,586



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 23, 2007

Board of Education
Mackinac Island Public School
Mackinac Island, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Mackinac Island Public School*** (the "District"), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated October 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2007-1 and 2007-2.

Finding 2007-1: Inability of management to prepare the financial statements in accordance with generally accepted accounting principles

Criteria: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized local educational units, the District has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, primarily, on its reliance on its external auditors, who cannot by definition be considered a part of the District's internal controls.

Cause: This condition was caused by the District's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead, relies, primarily, on its external auditors for assistance with this task.

District's Response: It is more cost effective to outsource the preparation of the financial statements than to incur the time and expense of obtaining the necessary training and expertise required to draft the financial statements internally.

Finding 2007-2: A lack of segregation of duties exists in the accounting function

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets.

Condition: Certain key financial duties of the District are being performed by the same individual and there are limited mitigating controls in place to ensure effective internal controls. Specifically, we noted that the following incompatible functions are being performed by one individual:

- Cash receipting is prepared by individuals who are also responsible for making bank deposits.
- Persons responsible for receipting also have disbursement responsibilities.
- Persons responsible for cash receipting and disbursing are also responsible for the recording the accounting transactions in the District's financial accounting system.

Cause: As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within the accounting function.

Effect: As a result of this condition, the District's current system of internal control has no safeguards in place to ensure that fraud or abuse is being prevented. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or Board of Education as possible.

District's Response: It is not cost effective to employ the number of additional staff necessary to provide for adequate segregation of duties within the accounting function. Rather, the District will identify areas in the cash receipts and disbursements cycle where appropriate monitoring and oversight are required and will add review and approval procedures to be performed by those most removed from the management, custody of assets and accounting functions related to the transactions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider both Finding 2007-1 and 2007-2 to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated October 23, 2007. We did not audit the District's response to the findings noted above and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, others within the organization, the Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



October 23, 2007

Superintendent and Members of
the Board of Education
Mackinac Island Public School
Mackinac Island, MI

In planning and performing our audit of the governmental activities, each major fund, and the aggregate remaining fund information of ***Mackinac Island Public School*** (the “District”) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District’s financial statements that is more than inconsequential will not be prevented or detected by the District’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies and two significant deficiencies that we consider to be material weaknesses. These deficiencies have been documented in the *Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards*. Certain other matters related to operational or administrative efficiencies and improvements to internal controls are included on the following pages.

This communication is intended solely for the information and use of the Board of Education, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

This letter does not affect our report dated October 23, 2007 on the financial statements of the District.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large initial 'L' and a distinct 'h'.

MACKINAC ISLAND PUBLIC SCHOOL
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2007

BANK ACCOUNT

During our audit procedures, we noted that the Mackinac Island Education Association has a bank account at First National Bank of St. Ignace. This account is under the Federal Employer Identification Number (EIN) of the *Mackinac Island Public School* and held a balance as of June 30, 2007 of \$2,082.71. However, the District did not account for this bank account in its accounting records. We recommend that the District require the Mackinac Island Education Association open an account using its own EIN. If that is not done, the District should record the bank account activity in its accounting records.

HOT LUNCH FUND ACCOUNTS RECEIVABLE

During our audit procedures, we noted that the District held approximately \$3,300 in outstanding hot lunch accounts receivable as of June 30, 2007. Students and teachers are invoiced monthly for meals purchased the previous month. These balances are not monitored on a monthly basis resulting in certain amounts significantly past due. This may result in certain balances becoming uncollectible. Alternatively, we recommend students and employees be billed “in advance” for the number of meals to be served that month. If the student or employee does not use the meals billed, the balance could carry over to the following month. Balances would be expected to be collected within the first 10 school days of the month, or no further meals would be served without payment. This would ensure that the District receives payment for meals served. Further, we recommend that the outstanding balances be monitored weekly with follow-up on all outstanding balances. This will ensure that all balances billed are collected and no uncollectible amounts are required to be written off.

VENDOR PAYMENTS

Because there are only two employees within the accounting function – the Superintendent and the Office Manager, the documentation procedures related to the review and approval for payment of vendor invoices has generally by verbal. This however, provides no audit trail in terms of whether the expenditures were processed in accordance with the Districts purchase policy. To protect both the Office Manager and the Superintendent from potential opportunities for impropriety, we recommend that a formal process be documented and followed with respect to the purchasing system of the District.

MACKINAC ISLAND PUBLIC SCHOOL
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2007

Specifically, each invoice should be stamped when it is received with a template that would allow for the documentation of initials of approval, date of Board approval of payment, date of payment, general ledger account charged and check number issued. Each processing date (generally weekly, biweekly or monthly), a folder of invoices to be paid should be presented to the Superintendent who would review each invoice for propriety and initial indicating approval for presentation to the Board for payment. A listing of approved invoices should then be presented to the Board for approval prior to issuing the checks for payment. The listing should be initialed by the Board Treasurer. Once approved, the checks would be run and notation would be made on the invoices of the check number, account charged and date of payment after which the paid invoices would be filed alphabetically by vendor name. This procedure will provide management with assurance that all checks issued are appropriately approved for payment and an appropriate audit trail would be provided.

GASB 34 FUND (Current and Prior Year Recommendation)

Governmental Accounting Standards Board (GASB) Statement No. 34 required governmental entities, such as schools, to present certain information in District-wide financial statements. The District successfully implemented GASB 34 for its year ending June 30, 2004. A separate fund is to be setup in order to account for GASB 34 requirements.

However, the District currently does not have this fund set up on its trial balance. While the State of Michigan does not yet require this fund to be included in the District's accounting records, we recommend that the District create this fund on its trial balance and adjust it annually.

STATE CHART OF ACCOUNTS (Prior Year Recommendation)

The District does not follow the state chart of accounts for its account numbering system, which requires a second set of numbers to be maintained. In an effort to better comply with the requirements of the state, we recommended in the prior year that the District work toward changing the numbering system to more closely follow the state requirements. During fiscal 2007, within the parameters allowed by the number of account number digits allowed by Quickbooks, the District has converted their account numbering system to more closely reflect the state requirements which has aided the Office Manager in preparing the FID for submission.

MACKINAC ISLAND PUBLIC SCHOOL
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2007

MICHIGAN FINANCE QUALIFYING STATEMENT

All governmental units subject to the Revised Municipal Finance Act (PA34 of 2001) must submit a Michigan Finance Qualifying Statement that allows governmental units to be eligible to apply for financing during the fiscal year. The District must submit their qualifying statement electronically using the Michigan Department of Treasurer's website. The Office manager must contact the Local Audit Finance Division of the Department of Treasury to establish a password to access the system and electronically submit their qualifying statement. The qualifying statement is due to the Michigan Department of Treasury by December 31, 2007.

ELECTRONICALLY FILING THE FINANCIAL STATEMENTS

The Michigan Department of Treasury has issued Numbered Letter 2005-2 which requires (under the authority of Michigan Compiled Law 141.427(1) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (pdf) compatible with Adobe Acrobat. We have provided the necessary information, in this electronic format, to the Office Manager to enable the District to comply. The financial statements must be submitted by December 31, 2007.

SEC RULE 15C-12 DISCLOSURE REQUIREMENTS

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million, to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. The District is subject to these reporting requirements. We recommend you contact your bond counsel who will generally assist in the preparation and timely submission of the annual disclosures required.

CONCLUSION

It has been a pleasure to provide audit services to *Mackinac Island Public School*. Thank you for providing all requested information.

We appreciate your business! Thank you.